

Bekaert (EUR 78 - BUY) - Another beat in all regions

Bekaert released a strong Q3 trading update with sales of EUR 866m vs. EUR 795m expected - We slightly raise our FY estimates and target price and keep our BUY rating - Stock-split 1-3 today.

Facts: Q3 sales of EUR 866m versus EUR 795m expected

- Bekaert released strong Q3 consolidated sales of EUR 866m vs. EUR 795m expected. Combined sales (incl. Brazil) amounted to EUR 1,195m vs. EUR 1,116m anticipated.
- The main positive surprise came from higher than expected price increases, while volumes were somewhat lower than we had expected. From the Q3 yoy sales growth of almost 40%, about 25% was thanks to price increases, 10% from volume growth, about 4% from currency and a small amount from consolidation scope. We had expected lower price increases and higher volume growth (15%e).
- On a geographical level, all regions outperformed. Automotive is doing strong everywhere, while in the US also films did very well and in Asia also renewable energy sectors. In Europe, building products remain weak.
- Combined Latam sales amounted to EUR 420m versus EUR 404m expected. In Venezuela, sales have been impacted by the decline of the Bolivar and in Brazil volumes increased in a highly competitive environment, caused by the strong Real.
- Bekaert also reduced its net debt from EUR 583m on June 30 to EUR 476m end Q3 thanks to a decrease of working capital and gross cash flow generation.
- Today the stock will be split in 3.
- Outlook: "After a strong third quarter, Bekaert expects fourth quarter consolidated sales in line with the average quarterly sales of the first half of 2010. Traditional seasonal effects such as year-end destocking by customers and holiday periods, as well as negative currency effects and measures toward controlled growth in China are indicators for more tempered sales growth in the months ahead."

Our View: Strong Q3 sales - Slight increase in EPS and target price

We have Q4 sales of EUR 750m in our Q4 estimates, which is indeed in-line with the average of the first 2 quarters. As such, we will increase our estimates mainly by the sales beat of Q3.

In H2 we also expect Chinese margins to drop slightly versus H1, which is viewed as realistic by an always prudent management. In H2 there should be no meaningful FIFO impact, despite the price rises in Q3. The company expects raw material price declines in Q4 to compensate the Q3 increase.

Conclusion: Increase in EPS by 3 to 4% and target price from EUR 86 to EUR 88 after 1-3 stock split

We reiterate our BUY rating on Bekaert. Q3 sales are much stronger than expected, even if the price impact is higher than expected, while we expected a somewhat higher volume growth. Most impressive is the widespread geographical performance. The Q4 guidance is in-line with our expectations. We slightly increase our preliminary EPS estimate from EUR 5.8 to EUR 6.1 and increase our target price to EUR 88.

Details

in EUR m	Q309	Q310e	Actual	vs. Exp
Consolidated sales	619	795	866	8.9%
EMEA	198	255	271	6.3%
North America	106	142	170	19.7%
Latin America	87	78	89	14.1%
Asia Pacific	228	320	336	5.0%
Combined sales (incl ass.)	857	1,116	1,195	7.1%
EMEA	197	252	269	6.7%
North America	105	139	169	21.6%
Latin America	326	404	420	4.0%
Asia Pacific	229	321	337	5.0%